1975 ANNUAL REPORT

BOMAC BATTEN

LIMITED/LIMITÉE

DIRECTORS AND OFFICERS

DIRECTORS

Reginald A. Batten
George C. Gardiner
Douglas R. Keedwell, C.A.
Charles E. McNellen
Charles H. McNellen
J. Harold Mitchell
Douglas R. Steadman
Robert M. Sutherland, Q.C.

OFFICERS

Charles H. McNellen
Chairman of the Board

Charles E. McNellen
Vice-Chairman of the Board

George C. Gardiner
President

Douglas R. Keedwell, C.A.
Vice-President and Secretary

William J. Brown
Treasurer

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company, Toronto

AUDITORS

Deloitte, Haskins & Sells

BANKERS

The Royal Bank of Canada

SOLICITORS

Fasken & Calvin

HEAD OFFICE

240 Richmond Street West, Toronto, Ontario M5V 1W1

REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors, I am presenting the Company's Consolidated Financial Statements as at December 31, 1975 together with the Auditors' Report to the Shareholders.

During 1975 consolidated sales totalled $12,691,906, a decline of 2.2% or approximately $275,000 from 1974. This reduction is principally due to the closing of certain non-profitable departments in the printing plate divisions during the year. Sales in our motion picture companies and our offset departments of the printing plate operations continued to increase and this increase was sufficient to compensate for the continuing decline in the demand for letterpress plates.

A consolidated loss from operations was incurred during 1975 of $136,455 before taxes and extraordinary items compared to a loss of $56,635 in 1974. After income taxes and extraordinary items a loss of $137,318 was recorded for the year under review.

Class A shares recorded a loss from operations of 50¢ per share reduced to 16¢ per share after extraordinary items. Common shares, likewise, recorded a loss from operations of $1.10 per share and after extraordinary items 76¢ per share. The loss per share compares to a loss of 7¢ per class A share and 37¢ per common share from operations and earnings of 29¢ per class A share and a loss of 1¢ per common share after extraordinary items in 1974.

The loss from operations for 1975 was incurred in the printing plate operations of the Company although one of the printing plate plants along with the motion picture companies recorded improved earnings for the year.

It was the decision of the Board of Directors to omit payments of dividends on all classes of the Company's shares after payment of dividends made on April 1, 1975 of $1.50 per preferred share and 15¢ per class A share. This decision was taken in view of the trend in operating results.

During 1975 capital expenditures amounted to $392,600, most of which was spent on equipment for the offset operations to provide for the continued growth of sales in this segment of our business. Included in this total is an amount of $225,000 covering the purchase of an electronic colour scanner which will reduce our costs and at the same time increase our capacity. This colour scanner with the laser beam system represents the most modern method of producing offset colour separations available and provides the maximum in speed and quality of reproduction. Also included in the capital expenditures is an amount of $75,000 to cover relocation resulting from the sale of the office building located at 224 Richmond Street West, Toronto.

In addition to the sale of the above office building, during the Fall of 1975 we disposed of a building in Montreal which we acquired through the purchase of Bomac Graphics in 1972 and which was no longer required. During the past three years the Company and its subsidiaries had a number of real estate acquisitions and disposals. The acquisitions totalling $719,962 comprise properties that previously had been rented by the Company while the disposals were properties no longer required and sold for a total of $1,042,700 with a book value of $531,000. At the present time no further changes are contemplated. We now have five properties in Toronto and one in Montreal which total at cost land $648,344 and buildings $1,900,247. Our accumulated depreciation on these buildings amounts to $657,795.

During the year under review, like most companies, our operating costs were under constant pressure due to substantial increases in the price of film, chemicals, metal and other normal business expenses in addition to wage increases under union contracts as well as wage adjustments to employees not covered by collective agreements. Due to the very uncertain economy, the market for our products was extremely competitive and as is generally the case under these conditions, profit margins were depressed. It was, therefore, not possible to recover the increased costs in our selling prices. Due to extreme fluctuations in our sales volume month to month, it was most difficult to balance our facilities with our sales as we were continually experiencing excessive overtime followed by periods of considerable idle time. During the first half of the year as previously mentioned we closed out two non-profitable departments in our printing plate operations which along with other consolidations of facilities and staff reflected in our operating results for the last six months of the year. As a result, the loss from operations of $298,128 experienced in the first six months of the year was reduced to $136,455 by year end. It is also encouraging that the growth in the sales volume of our motion picture companies and offset departments during the last half of the year accelerated and exceeded the continuing decline in sales for letterpress plates despite the loss of sales for two departments eliminated in the first six months. Our Ottawa operations which previously had contributed to the earnings of the Company were seriously affected by the decline in the demand for letterpress printing plates. Due to the highly competitive market in this area and despite our efforts to reduce our costs and supplement their sales, we were unable to maintain a profitable operation. It was decided, therefore, to phase out our manufacturing in this plant and we discontinued manufacturing operations the end of February 1976.

We have been successful in obtaining some substantial sales volume not previously handled by our Company and with the elimination of the non-profitable facilities, a continuing cost control program and the hope of more stable costs we anticipate more favourable operating results.

At the present time we are not subject to legal restraint under the Anti-Inflation Program; however, the policy of the Company is to voluntarily comply with the guidelines with respect to prices and compensation. Since we participate in industry-wide collective agreements, contracts recently concluded covering our union employees were required to be negotiated within the guidelines.

We sincerely appreciate the contribution made by our employees through their loyalty and efficiency during rather difficult times and it was with their efforts we were able to continue to provide to our customers the high standard of service and quality for which our Company has been known for many years.

On behalf of the Board,

President

FIVE YEAR FINANCIAL SUMMARY

	1975	1974	1973	1972	1971
CURRENT POSITION					
Current assets	**$ 3,496,839**	$ 3,976,713	$ 3,550,854	$ 4,218,852	$ 3,307,831
Current liabilities	**$ 2,024,778**	$ 2,222,784	$ 1,438,096	$ 2,617,386	$ 860,928
Working capital	**$ 1,472,061**	$ 1,753,929	$ 2,112,758	$ 1,601,465	$ 2,446,903
Current ratio	**1.7**	1.8	2.4	1.6	3.8
PLANTS AND PROPERTIES					
Investment in plants and properties	**$ 8,625,879**	$ 8,883,735	$ 9,124,934	$ 8,441,160	$ 5,614,523
Accumulated depreciation	**$ 5,853,535**	$ 5,893,240	$ 5,942,695	$ 5,783,488	$ 3,749,958
Provision for depreciation	**$ 269,186**	$ 313,875	$ 339,671	$ 308,534	$ 262,108
Expenditures	**$ 392,600**	$ 212,334	$ 897,804	$ 369,036	$ 319,071
SHAREHOLDERS' EQUITY					
Preferred stock	**$ 301,000**	$ 303,500	$ 306,300	$ 323,000	$ 323,500
Class A and common stock	**$ 565,313**	$ 565,313	$ 565,313	$ 565,313	$ 565,313
Retained earnings	**$ 3,301,987**	$ 3,461,809	$ 3,556,792	$ 3,560,272	$ 3,525,401
Class A and common equity	**$ 3,867,300**	$ 4,027,122	$ 4,112,105	$ 4,125,585	$ 4,090,714
Per share	**$ 12.68**	$ 13.20	$ 13.48	$ 13.52	$ 13.41
SALES	**$12,691,906**	$12,966,399	$13,315,538	$14,108,026	$10,496,130
EARNINGS					
Earnings (loss) from operations	**$ (242,159)**	$ (56,635)	$ 200,573	$ 55,348	$ 415,060
Per class A share	**$ (.50)**	$ (.07)	$ .71	$ .23	$ 1.64
Per common share	**$ (1.10)**	$ (.37)	$ .51	$ .03	$ 1.04
Earnings (loss) after extraordinary items	**$ (137,318)**	$ 51,870	$ 200,341	$ 348,207	$ 420,460
Per preferred share—available	**$ (45.62)**	$ 17.09	$ 65.40	$ 107.80	$ 129.97
—distributed	**$ 1.50**	$ 6.00	$ 6.00	$ 6.00	$ 6.00
Per class A share	**$ (.16)**	$ .29	$ .71	$ 1.19	$ 1.66
Per common share	**$ (.76)**	$ (.01)	$ .51	$ .99	$ 1.06

BOMAC BATTEN LIMITED AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at December 31, 1975

(with 1974 figures for comparison)

ASSETS	**1975**	1974
CURRENT		
Cash	**$ 139,507**	$ 159,473
Accounts receivable	**2,723,103**	2,996,491
Marketable securities at cost which approximates market value	**9,750**	9,750
Mortgages receivable—current portion	**14,680**	11,670
Income taxes recoverable	—	168,187
Inventories	**559,450**	579,713
Prepaid expenses	**50,348**	51,427
	3,496,839	3,976,713
INVESTMENTS		
Mortgages due through 1984	**683,035**	497,870
Cash surrender value of life insurance less loans	**55,067**	64,996
Other investments	**51,244**	43,332
	789,346	606,198
FIXED		
Plants and properties	**8,625,879**	8,883,735
Less accumulated depreciation	**5,853,535**	5,893,240
	2,772,344	2,990,495
	$7,058,530	$7,573,407

Approved by the Board:
Geo. C. Gardiner, *Director*
R. M. Sutherland, *Director*

LIABILITIES AND SHAREHOLDERS' EQUITY	**1975**	1974
CURRENT		
Bank indebtedness (Note 2)	**$ 426,159**	$ 561,000
Accounts payable and accrued	**1,283,595**	1,288,257
Income taxes	**50,022**	—
Long-term debt—current portion (Note 3)	**265,000**	350,000
Dividends payable	—	23,527
	2,024,778	2,222,784
DEFERRED INCOME TAXES	**10,451**	—
LONG-TERM DEBT (Note 3)	**855,000**	1,020,000
SHAREHOLDERS' EQUITY (Notes 4 and 5)		
Share capital		
Authorized		
10,000 6% cumulative redeemable preferred shares with a par value of $100 each and callable at $104		
200,000 60¢ cumulative participating class A shares and 200,000 common shares, both without nominal or par value		
Issued and outstanding		
3,010 preferred shares (1974—3,035 shares)	**301,000**	303,500
126,500 class A shares 178,500 common shares	**565,313**	565,313
	866,313	868,813
Retained earnings	**3,301,987**	3,461,809
	4,168,301	4,330,622
	$7,058,530	$7,573,407

See notes to consolidated financial statements

BOMAC BATTEN LIMITED AND SUBSIDIARY COMPANIES

Consolidated Statement of Retained Earnings for the year ended December 31, 1975
(with 1974 figures for comparison)

	1975	1974
Balance, beginning of year	**$3,461,809**	$3,556,792
Earnings (loss) for the year	**(137,318)**	51,870
Discount on purchase of preferred shares	**987**	872
	3,325,477	3,609,535
Deduct		
Dividends on preferred shares	**4,515**	18,276
Dividends on class A shares	**18,975**	75,900
Dividends on common shares	—	53,550
	23,490	147,726
Balance, end of year	**$3,301,987**	$3,461,809

Consolidated Statement of Loss for the year ended December 31, 1975
(with 1974 figures for comparison)

	1975	1974
Sales	**$12,691,906**	$12,966,399
Earnings from operations before taking into account the following items	**$ 242,773**	$ 392,189
Deduct		
Depreciation	**269,186**	313,875
Interest including long-term debt interest $129,724 (1974—$159,222)	**198,013**	201,350
	467,200	515,225
	(224,426)	(123,036)
Add		
Investment and other income	**87,971**	66,401
Loss from operations before income taxes	**136,455**	56,635
Income taxes (Note 6)	**105,704**	—
Loss from operations	**242,159**	56,635
Extraordinary credit (Note 7)	**104,840**	108,505
Loss (earnings) for the year (Note 8)	**$ 137,318**	$ (51,870)

See notes to consolidated financial statements

Consolidated Statement of Changes In Financial Position for the year ended December 31, 1975

(with 1974 figures for comparison)

	1975	1974
SOURCE OF WORKING CAPITAL		
Loss from operations	**$ (242,159)**	$ (56,635)
Depreciation	**269,186**	313,875
Deferred income taxes	**10,451**	(38,090)
From operations	**37,478**	219,150
Gain on disposal of real estate	**104,840**	113,984
Term bank loan	**100,000**	—
Expropriation claims	—	5,478
Adjustment of income taxes	—	97,147
	242,319	435,759
APPLICATION OF WORKING CAPITAL		
Increase in plants and properties	**51,035**	122,132
Increase in investments	**183,148**	64,698
Dividends	**23,490**	147,726
Purchase of preferred shares	**1,512**	1,928
Decrease in long-term debt	**265,000**	350,000
Cost of relocating equipment	—	30,104
Provision for loss on bank guarantee	—	78,000
	524,186	794,588
Decrease in working capital for the year	**281,868**	358,829
Working capital beginning of year	**1,753,929**	2,112,758
Working capital end of year	**$ 1,472,061**	$1,753,929

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1975

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation:

The financial statements consolidate the accounts of the Company and its subsidiaries Filmpro Limited, Rabko Television Productions Co. Limited, Medallion Film Laboratories Limited, Arco Advertisers Revisions Limited, Fairbairn Studio Limited, Bomac Graphics Limited and Bomac Montreal Limited, all of which are wholly-owned.

Inventories:

Inventories consist of materials, supplies and work in process and are valued at the lower of cost and net realizable value.

Investments:

Investments are carried at cost with the exception of shares in an associated company, which are accounted for on an equity basis.

Plants and properties:

Plants and properties are valued at cost. Depreciation and amortization of these assets are based on their estimated useful lives using straight-line and declining-balance methods.

Income taxes:

The Company accounts for income taxes using the tax allocation basis. The major timing difference which creates deferred income taxes is the result of differences between depreciation recorded and capital cost allowances claimed for income tax purposes.

Earnings per share:

The Company calculates earnings per class A and common share, after giving effect to the cumulative preferred dividend entitlement, on the following basis:

(a) An amount equal to the class A dividend entitlement for the period is allocated to the class A shares.

(b) An amount equal to the dividend paid on the common shares, to a limit of the class A dividend entitlement for the period, is allocated to the common shares.

(c) The remaining earnings (or the resultant deficiency in the event that the foregoing entitlements exceed the earnings for the period) are allocated on a share for share basis between the class A and common shares.

2. BANK BORROWINGS

Bank borrowings are secured by assignment of accounts receivable and the shares of a subsidiary company.

3. LONG-TERM DEBT

	1975	1974
6½% mortgage payable in quarterly instalments of $6,250 with balance due in 1981	$ 150,000	$ 175,000
Term bank loan bearing interest at 1½% above the bank's prime rate payable in monthly instalments of $20,000	820,000	960,000
8¾% mortgage due in 1983	150,000	150,000
6½% mortgage payable in semi-annual instalments of $5,000 with balance due in 1975	—	85,000
	1,120,000	1,370,000
Less current portion	265,000	350,000
	$ 855,000	$1,020,000

Payments required on long-term debt over the next five years total $945,000 payable as follows:
1976—$265,000; 1977—$265,000; 1978—$265,000; 1979—$125,000; 1980—$25,000.

4. PURCHASE OF PREFERRED SHARES

The Company has purchased 990 preferred shares for cancellation in accordance with the terms of issue including 25 shares purchased during the year. As a result of such purchases retained earnings in the amount of $99,000 equivalent to the par value of the shares cancelled are not available for distribution.

5. DIVIDEND ARREARS

Dividends on the preferred and class A shares are cumulative and have not been declared since the dividends paid April 1, 1975. Dividends in arrears on the preferred shares amount to $13,545 and on the class A shares $56,925.

6. INCOME TAXES

For income tax purposes, the Company and a subsidiary have non-capital tax losses of approximately $420,000 of which $162,000 may be carried forward until 1979 and $258,000 until 1980. The non-capital tax losses do not include capital cost allowances of approximately $218,000 that may be applied to future taxable income. The income tax benefit resulting from utilizing these losses and allowances will be recorded in the year realized. Certain other subsidiary companies generated earnings from operations resulting in a provision for income taxes.

7. EXTRAORDINARY CREDIT

	1975	1974
Gain on disposal of real estate less income taxes of $8,200 (1974—$8,600)	$ 104,840	$ 113,984
Cost of relocating equipment	—	(30,104)
Expropriation claims	—	5,478
Provision for loss on bank guarantee	—	(78,000)
Adjustment of income taxes	—	97,147
Extraordinary credit	$ 104,840	$ 108,505

8. EARNINGS PER SHARE

	Earnings (Loss) Before Extraordinary Items		Earnings (Loss) For Year	
	1975	1974	1975	1974
Earnings (loss) per class A share	$(.50)	$(.07)	$(.16)	$ .29
Earnings (loss) per common share	$(1.10)	$(.37)	$(.76)	$(.01)

9. ANTI-INFLATION LEGISLATION

Under anti-inflation legislation enacted by the Government of Canada effective October 14, 1975, the Company is not permitted to declare or pay dividends in the twelve month period ending October 13, 1976 in excess of $6.00 per share on the preferred shares, 60¢ per share on the class A shares and 30¢ per share on the common shares. However, the Company may declare and pay dividends on the preferred and class A shares which were in arrears on October 13, 1975 amounting to $3.00 per preferred share and 30¢ per class A share. Regulations concerning the payment of dividends after October 13, 1976 have not been issued to date.

10. INFORMATION RE DIRECTORS AND OFFICERS

(a) During the year the Company had eight directors whose aggregate remuneration as directors amounted to $1,000 (1974—$1,000).
(b) During the year the Company had five officers and two past officers whose aggregate remuneration amounted to $245,330 (1974—$256,346) of which $184,090 was paid by the Company and $61,240 by subsidiaries.
(c) During the year four officers and a past officer were also directors.

AUDITORS' REPORT

To the Shareholders of

BOMAC BATTEN LIMITED:

We have examined the consolidated balance sheet of Bomac Batten Limited and subsidiary companies as at December 31, 1975 and the consolidated statements of loss, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Bomac Batten Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
March 15, 1976

DELOITTE, HASKINS & SELLS
Chartered Accountants

BOMAC BATTEN
LIMITED/LIMITÉE

TORONTO MONTREAL OTTAWA LONDON WINNIPEG HALIFAX

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BOMAC BATTEN

LIMITED

INTERIM REPORT

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited)

	Six Months Ended June 30 1975	Six Months Ended June 30 1974
SOURCE OF WORKING CAPITAL		
Gain on disposal of real estate	$ 89,377	$ —
APPLICATION OF WORKING CAPITAL		
Loss from operations	326,153	171,082
Depreciation	(135,553)	(141,455)
From operations	190,600	29,627
Increase in plants and properties	6,295	96,790
Increase (decrease) in investments	194,773	(89,374)
Decrease in long-term debt	132,500	137,500
Dividends declared — preferred	4,515	9,159
— class A	18,975	37,950
— common	—	35,700
Purchase of preferred shares	1,513	1,440
	549,171	258,792
Net decrease in working capital for the period	459,794	258,792
Working capital beginning of period	1,753,928	2,112,758
Working capital end of period	$1,294,134	$1,853,966

August 26, 1975

To the Shareholders:

Consolidated sales for the first six months declined $120,000 and combined with increased labour and material costs resulted in a loss of $236,775 for the period.

While the full impact of the reduction in the market for letterpress plates was reduced considerably by growth in sales of other operations, the uncertain economy created a highly competitive market for all of our products and profit margins were subjected to extremely adverse pressure.

The sales trend early in the second half of the year is encouraging and, in fact, at this date production facilities are operating close to capacity. Should this increased activity continue throughout the remainder of the year, it is anticipated that operating results will be more favourable.

The following is an unaudited comparative summary of operations for the six-month periods:

	Six Months Ended June 30 1975	Six Months Ended June 30 1974
Sales	$5,819,291	$5,939,209
Loss before income taxes	$ 298,128	$ 179,370
Income taxes (recovery)	28,025	(8,288)
Loss from operations	326,153	171,082
Gain on disposal of real estate (less income taxes of $30,000)	89,377	—
Loss for the period	$ 236,776	$ 171,082
Loss per share		
Class A	70¢	53¢
Common	85¢	63¢

President.

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